Power in the Red: India's Discom Debt Crisis, the Road to Reform, and Why Consumers Must Wake Up

Introduction

Switch on a light, run a fan, or charge a phone anywhere in India, and somewhere behind that simple act sits one of the most financially troubled segments of the Indian economy — the power distribution company, or "discom." These are the state-owned (mostly) utilities that buy electricity from generators and sell it to homes, farms, shops and factories. For over two decades they have been described as the "weakest link" in India's power value chain: technically capable of keeping the lights on, but financially bleeding at a scale that now runs into several lakh crore rupees.

This article lays out, in plain language, three things: how big the discom debt problem really is; what is causing it and what the government is doing to fix it; and — most importantly — what ordinary electricity consumers need to know, because the crisis is not just a balance-sheet problem for utilities in state capitals. It shapes the tariff on every bill, the reliability of every connection, and the subsidies every taxpayer eventually funds.

Part I: The Scale of the Crisis

How much do discoms actually owe?

As of March 2025, India's electricity discoms carried total outstanding borrowings of about **₹7.26 lakh crore**, according to figures the Ministry of Power placed before the Rajya Sabha, based on the Power Finance Corporation's annual rating report on power distribution utilities. Of this, roughly ₹2.74 lakh crore was categorised as "unsustainable" debt — borrowing that utilities have little realistic prospect of servicing from their own operating cash flows. State-owned distribution utilities account for the overwhelming bulk of this — about ₹7.11 lakh crore — while private discoms carry a comparatively small ₹15,000 crore.

The debt is heavily concentrated. Tamil Nadu tops the list with borrowings of roughly

₹1.02 lakh crore, followed by Rajasthan (~₹98,500 crore) and Maharashtra (~₹90,700 crore). Uttar Pradesh and Telangana follow with ₹61,400 crore and ₹59,200 crore respectively. Together, a handful of large states account for a disproportionate share of the national discom debt burden.

It helps to separate three related but distinct numbers that often get confused in public discussion:

Term	What it means	Recent figure
Total discom debt/borrowings	Loans discoms have taken from banks, PFC, REC and other lenders to fund operations and capital works	~₹7.26 lakh crore (Mar 2025)
Legacy dues to generators	Old unpaid bills to power producers, now on a mandated EMI repayment schedule under the 2022 Late Payment Surcharge (LPS) Rules	Reduced from ~₹1.40 lakh crore (June 2022) to a few thousand crore by early-mid 2026
Current/overdue payables	Ongoing monthly bills discoms owe generators, some of which slip past the 45-day grace period	Fluctuates; roughly ₹13,000–27,000 crore in various recent readings

The second category — legacy dues — is genuinely improving fast. Under the LPS Rules notified in June 2022, states were forced to convert old arrears into scheduled EMIs, with smaller debts cleared within a year and the largest (over ₹10,000 crore) given up to four years, backed by a hard penalty: any discom that fails to pay current bills within a month loses access to the inter-state transmission network. Thirteen states opted into this mechanism, and by the numbers, it worked — legacy arrears fell by well over 95% in under four years.

But this improvement is easy to misread as the whole problem being solved. The much larger number — total accumulated debt of over ₹7 lakh crore — has not shrunk anywhere near as dramatically, because most of it is not "legacy dues to generators" at all; it is working-capital and infrastructure borrowing built up over years of operating losses.

From losses to a fragile "profit"

For FY 2024-25, discoms as a sector reported an aggregate Profit After Tax of about ₹2,700 crore — a striking reversal from a loss of nearly ₹68,000 crore a decade earlier, and from annual losses that had at points touched ₹75,000–80,000 crore in the early 2020s. The gap between the Average Cost of Supply and Average Revenue Realised (the

"ACS-ARR gap," a standard measure of discom financial health) has narrowed sharply too, from about ₹0.78 per unit in FY14 to roughly ₹0.06 per unit in FY25.

These are genuine improvements, but analysts caution the turnaround is thinner than the headline numbers suggest. Several large discoms post a "profit" only because of direct state government support layered on top of otherwise loss-making operations. Tamil Nadu's TANGEDCO, for instance, reports a profit only after accounting for roughly ₹31,000 crore of state support — without it, the underlying business runs at a loss of over ₹14,000 crore. In other words, the sector's improved numbers reflect stronger fiscal transfers and tighter payment discipline as much as they reflect a durable fix to the underlying economics of selling electricity below cost.

Part II: Why Discoms Keep Bleeding Money

The reasons discoms struggle financially are structural, not incidental, and most trace back decades.

1. High technical and commercial losses (AT&C losses). Aggregate Technical & Commercial losses measure the gap between electricity a discom buys and the electricity it actually gets paid for — lost to old wires and transformers, theft and unauthorised connections, faulty or absent metering, and poor bill collection. National AT&C losses have improved substantially, from about 21.9% in FY2021 to roughly 15% in FY2025, but still remain well above the 12–15% target set for the sector, and far above global best-practice levels of under 10%.

2. Politically-set, non-cost-reflective tariffs. State regulators are supposed to set tariffs that recover the actual cost of supply, but state governments routinely push for tariffs that stay well below cost for politically sensitive categories — especially domestic and agricultural consumers — for electoral reasons. When subsidies aren't reimbursed to the discom on time (or reimbursed in full), the gap becomes discom debt.

3. Cross-subsidy and a shrinking base of high-paying customers. Historically, commercial and industrial (C&I) consumers have paid tariffs well above cost to cross-subsidise cheaper power for households and farms — in some years, C&I consumers supplied around half of discom revenue while consuming a much smaller share of units. But as captive generation, open-access power purchase, and rooftop/commercial solar become cheaper and more accessible, high-paying C&I consumers are increasingly opting out of the discom grid altogether. This erodes exactly the revenue base that subsidises everyone else, worsening the underlying deficit.

4. Unmetered and under-metered agricultural supply. Large parts of farm power

consumption are still not metered, which means discoms cannot separate genuine agricultural usage from technical losses or theft disguised as "agricultural consumption." This has historically let both distribution losses and subsidy bills be under- or over-stated, distorting the true financial picture.

5. Expensive legacy power-purchase agreements. Many discoms remain locked into long-term contracts with thermal power plants signed years ago at prices that no longer reflect the market — including the now much cheaper cost of renewable energy. Renegotiating or exiting these contracts is legally complex and politically fraught.

6. Weak regulatory and institutional capacity. State Electricity Regulatory Commissions are often short-staffed and under-resourced, leading to delayed tariff orders, a build-up of "regulatory assets" (essentially IOUs that push today's costs into future tariffs), and inconsistent enforcement.

Part III: What's Being Done — Reform and Its Limits

UDAY (2015): the first big bailout

The Ujwal DISCOM Assurance Yojana, launched in November 2015, was India's first large-scale attempt at financial restructuring: state governments took over roughly 75% of discom debt in exchange for discoms committing to reduce AT&C losses and close the ACS-ARR gap. UDAY delivered some genuine gains but many states missed their targets, and debt began accumulating again within a few years — a pattern reformers are determined not to repeat.

The 2022 Late Payment Surcharge Rules

As described above, this mechanism forced discoms to convert old dues to generators into disciplined EMI schedules, backed by the credible threat of losing grid access for non-payment of current bills. It is widely regarded as one of the more effective recent interventions, precisely because it changed incentives rather than simply writing off debt.

RDSS (2021): the current flagship scheme

The Revamped Distribution Sector Scheme, notified in July 2021 with an outlay exceeding ₹3 lakh crore, is the centrepiece of current reform efforts. It is explicitly outcome-linked: central funding is released only against verified performance milestones, not simply disbursed upfront. Its core pillars are:

- **Smart prepaid metering** for roughly 250 million consumer connections nationwide

(alongside feeder and distribution-transformer meters), executed through private Advanced Metering Infrastructure Service Providers under a "TOTEX" (total expenditure) financing model.

- **Loss-reduction targets** — bringing AT&C losses down to 12–15% nationally.
- **Closing the ACS-ARR gap** to zero through better cost recovery.
- **Infrastructure strengthening**, including separating agricultural and domestic feeders so farm power can eventually be metered and managed independently.

As of mid-2026, over 20 crore smart meters have been sanctioned under RDSS, with installation targeted for completion by March 2028 (extended from the original 2025-26 deadline, reflecting the scale and complexity of the rollout). Progress is uneven across states — strong momentum in Bihar, Assam, Uttar Pradesh and Haryana, slower uptake in states like Gujarat, where consumer concerns about billing accuracy have delayed rollout in places.

The Draft National Electricity Policy 2026

Released for public consultation in January 2026 to replace the 2005 policy, this draft signals the most ambitious rethink of the sector in years. Key proposals include:

- **Cost-reflective, time-of-day tariffs**, with automatic annual tariff revision if state regulators fail to issue timely orders (a provision that has drawn criticism from consumer advocates worried it could weaken independent regulatory oversight).
- **Progressive reduction of cross-subsidies**, while guaranteeing no consumer category is charged below 50% of the average cost of supply.
- **Advance, direct payment of subsidies** to discoms rather than open-ended promises of "free power," to prevent subsidy backlogs from becoming discom debt.
- **Encouraging state-owned discoms to list on stock markets**, to bring in market discipline and governance scrutiny.
- **Solarising agricultural feeders** by 2030, paired with storage, so farmers get reliable daytime power while reducing the subsidy burden tied to expensive round-the-clock thermal supply.

The draft has attracted serious critique as well. Commentators have pointed out an inherent tension between four goals the policy pursues simultaneously — universal access, full cost recovery, market competition, and discom financial viability — arguing that, mathematically, not all four can be fully achieved at once without a clearer mechanism for who absorbs the cost of connecting remote, low-revenue consumers. Others have flagged that the automatic tariff-revision clause could reduce the

independence of state regulators. These are live, unresolved debates as the policy moves toward finalisation.

A balanced view of "the solution"

There is no single fix. The measures now in motion work together: EMI-based debt discipline stops old dues from piling up further; smart metering improves revenue collection and reduces technical losses; cost-reflective tariff policy (if implemented with political follow-through) closes the structural revenue gap; and better-targeted, upfront subsidy payments prevent today's populist tariffs from becoming tomorrow's discom debt. Where these reforms have been genuinely implemented, the results are visible — the AT&C loss improvement and the sharp reduction in legacy dues are real. Where political will has been partial — non-cost-reflective tariffs continuing, subsidy payments still delayed — debt keeps accumulating even as headline "profit" numbers look better.

Part IV: Why This Is a Consumer Issue, Not Just a Utility Problem

It is tempting to treat discom debt as a distant, technical, government-to-government matter. It isn't. Every rupee of discom loss eventually shows up somewhere in a consumer's life:

- **In tariffs** — when discoms are financially stressed, regulators eventually have to approve tariff hikes, and delayed cost recovery gets passed forward as "regulatory assets" that inflate future bills.
- **In service quality** — cash-strapped discoms defer maintenance, leading to more frequent faults, voltage problems, and outages, particularly in rural and semi-urban feeders.
- **In public spending** — state government bailouts and subsidy support to loss-making discoms are ultimately funded by taxpayers, competing with spending on health, education, and other public goods.
- **In new-connection delays and billing errors** — understaffed, financially squeezed discoms are slower to process new connections and resolve billing disputes.

And yet, consumer awareness of both the crisis and consumers' own rights within it remains strikingly low. A widely cited consumer survey found that only about 8% of respondents were aware of the Consumer Grievance Redressal Forum (CGRF) — the primary, free, legally mandated channel for resolving billing and service disputes — and only 5% knew all three tiers of the grievance system. Just 13% could correctly recall

their own discom's helpline number, even though nearly half said they would use it in a complaint. Ground-level accounts from consumer advocacy groups describe households — particularly in rural areas — who had lived for years with poor supply or overcharging, simply assuming it was "the system," unaware they had a legal right to complain and even claim compensation.

This awareness gap matters because several of the reforms discussed above — smart meters, cost-reflective tariffs, time-of-day pricing — only deliver their full benefit if consumers understand and actively use them. An informed, engaged consumer base is not a side benefit of discom reform; it is one of its necessary ingredients.

Part V: A Practical Consumer Awareness Guide

Know your rights

Under the **Electricity (Rights of Consumers) Rules, 2020**, every electricity consumer in India is legally entitled to:

- **Fair, transparent billing** — clear tariff categories, and the right to dispute and seek re-assessment of an incorrect bill.
- **Timely new connections and modifications**, within state-specified timelines (a 2026 draft amendment proposes tightening these to as little as 3 days in metropolitan areas and up to 30 days in hilly regions).
- **Advance notice of planned outages** and prompt information on restoration after unplanned ones, via SMS or other electronic means.
- **Doorstep service for senior citizens** — for bill payment, applications, and related services.
- **Compensation for service failures** — some automatically, others on a claim basis, for issues like delayed connections or repeated supply interruptions.
- **Participation in tariff-setting** — the right to take part in public hearings and consultations before regulators approve new tariffs.
- **A free, two-tier grievance redressal system** — described below.

A **draft amendment circulated in 2026** proposes an additional safeguard: automatic review of any bill where consumption is unusually high (over five times the recent average) or unusually low (under one-fifth of it), with supply protected from disconnection while the review is underway, provided the consumer keeps paying based

on average past usage.

How to actually file a complaint

Step	What to do	Typical timeline
1. Discom helpline / local office	Call the toll-free number or contact the local Assistant Engineer, in writing or by phone. **Always get a complaint reference number** — this is essential if you need to escalate.	Discoms are generally required to resolve billing complaints within about 7 days
2. Consumer Grievance Redressal Forum (CGRF)	A free, quasi-judicial body every discom must maintain. File online or in person; no lawyer or fee required.	Resolution generally within 30–45 days
3. Electricity Ombudsman	The appellate authority if the CGRF's decision is unsatisfactory or delayed. A CGRF complaint is a mandatory first step — you cannot go directly to the Ombudsman.	Final order typically within 90 days; binding on the discom

Very few consumers currently use this ladder — mainly because they don't know it exists. Knowing it exists is, in itself, one of the most useful pieces of "awareness" a consumer can have.

Make the most of smart meters, where installed

Where prepaid smart meters have been rolled out under RDSS, they give consumers tools that older meters never did:

- **Near real-time consumption tracking** through a mobile app, so you can see usage patterns rather than being surprised by a bill weeks later.
- **Low-balance alerts and easy recharge**, helping avoid unexpected disconnection.
- **Historical usage graphs**, useful for spotting which appliances or habits are driving up consumption.

Utilities running these programmes have found that even among consumers who download the metering app, many are unaware of features like real-time consumption tracking — so the tool only helps if you actually explore what it offers, not just leave it installed.

Understand time-of-day (ToD) tariffs

As more states move to cost-reflective and time-of-day pricing (charging more during peak evening hours and less at off-peak times), consumers who shift flexible, high-load activities — like running a washing machine, water heater, or EV charging — to off-peak hours can meaningfully reduce their bills, while also easing pressure on a stressed grid at peak times.

Reduce your contribution to system losses

- **Never tolerate or participate in unauthorised connections or meter tampering** — this is not a victimless act; it is a direct driver of the AT&C losses that keep discoms financially unviable, which in turn raises tariffs for everyone else.
- **Report suspected theft or tampering** to the discom — most now have dedicated helplines or portals for this.
- **Ensure your meter is accessible** for accurate readings, reducing estimated (and often disputed) billing.

Practise basic energy efficiency

- Prefer higher **BEE star-rated appliances** (the Bureau of Energy Efficiency's 1–5 star system) — a higher rating means lower consumption for the same output, especially relevant for ACs, refrigerators, and fans.
- Simple habits — switching off idle appliances, using natural light and ventilation where possible, regular AC servicing and filter cleaning — compound into meaningful savings over a year.
- Lower individual demand, multiplied across millions of households, genuinely eases the system-wide procurement and infrastructure strain that underlies much of the discom financial problem.

Participate, don't just pay

Regulatory commissions are required to hold public hearings before approving tariff changes. Very few ordinary consumers attend or submit comments — participation is dominated by industry associations and activist groups. Consumers who do engage, even by submitting written comments during a comment period (as with the Draft NEP 2026 or state tariff petitions), are exercising a right that shapes what they eventually pay.

Conclusion

India's discom debt crisis is neither a simple villain story nor a fully solved problem. It is the product of decades of tariffs set by political convenience rather than cost, technical losses from ageing infrastructure and theft, and a shrinking base of paying customers as better power options emerge elsewhere. The reforms of the past few years — disciplined debt repayment schedules, outcome-linked funding under RDSS, large-scale smart metering, and now a more ambitious draft national policy — have produced real, measurable progress: legacy dues have collapsed, AT&C losses have fallen meaningfully, and the sector has technically turned profitable for the first time in a decade. But that progress remains fragile, propped up in places by state subsidies rather than durable operational health, and the hardest political choice — letting tariffs actually reflect cost — remains only partially made.

Consumers are not bystanders in this story. Every unit of power lost to theft, every unpaid or unmetered agricultural connection, and every consumer unaware of their own billing and grievance rights is, in a small way, part of why discoms remain financially fragile — and every informed, engaged consumer, using their rights and their tools wisely, is part of the fix. The debt crisis will ultimately be resolved by policy and political will at the state and central level. But an aware, participative consumer base is what makes that resolution sustainable rather than repeatedly temporary.

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